



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:29 a.m. August 23, 2005. The following members were present:

Jody B. Olson
Clifford T. Hayes
Pamela I Ahrens
J. Kirk Sullivan
Jeff Cilek

Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe and Management Assistant Joanne C. Ax were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Richelle Sugiyama	Endowment Board Acting MIO
Rod MacKinnon	Mountain Pacific Investment Advisors
Bill Palumbo	Mountain Pacific Investment Advisors
Dennis Fitzpatrick	DB Fitzpatrick & Co.
Brian McGrath	DB Fitzpatrick & Co.
Drew Black	DB Fitzpatrick & Co.
Cody Barney	DB Fitzpatrick & Co.
Vickie Burnet	IPEA
Michael Barcelo	Idaho Trust National Bank
Doug Bates	Clearwater
Dave Boren	Clearwater
James Coleman	Retired Teachers
Charlie Brown	REAL
Geoff Bridges	Milliman

Jim Shakelford	IEA
Amy Castro	LSO
Diane Berg	PERSI
Judy Aitken	PERSI
Cecile McMonigle	PERSI

EXECUTIVE SESSION

Citing Idaho Code §67-2345(b) which allows the Board to discuss personnel issues privately, by motion duly made by Trustee Sullivan and seconded by Trustee Ahrens, the Board convened in Executive Session at 8:31 a.m. They reconvened in open session at 8:45 a.m.

Chairman Olson welcomed new trustee Jeff Cilek who has been appointed to the Board by the Governor. He will be confirmed by the legislature when they convene in January. Mr. Cilek is the Executive Director, St. Luke's Health Foundation and External Relations Assistant to the President St. Luke's Health Foundation. He has worked for Senator McClure in Washington D.C., has served on the Federal Lands Task Force Working Group as well as with The Peregrine Fund.

Mr. Olson said that during the Executive Session, the Trustees discussed personnel issues including the HB 395 one-time merit funding for employees. By motion duly made by Trustee Sullivan and seconded by Trustee Ahrens, the Board unanimously approved awarding the lump-sum merit payment to exempt staff under the same policies with classified employees.

MINUTES

Approval of the Minutes: By motion duly made by Trustee Hayes and seconded by Trustee Sullivan, the Board unanimously approved the minutes of the July 21, 2005 meeting with a wording clarification. In a separate motion made by Trustee Ahrens and seconded by Trustee Sullivan, the Board unanimously approved the minutes of the July 21, 2005 Investment Sub-Committee Meeting.

PORTFOLIO

Fiscal Year Review – At the request of the Chair, Michael O'Leary began his presentation by discussing the situation of San Diego City, noting he had not received a copy of the lawsuit. That city attorney has filed a lawsuit against Callan Associates alleging their investment advice had been tainted by undisclosed conflicts of interest which contributed to losses that will affect the city's finances for years. The San Diego pension fund has achieved high investment returns during the years that the firm has been its consultant. The lawsuit appears to be fallout from the city's financial and legal difficulties. Mr. Maynard added that the problems are not from the investment side, but from administration and lack of attention to the benefit

liabilities. Benefits have been increased without increasing contributions and actuarial tables were not updated.

Mr. O'Leary then summarized the performance of the PERSI Base Plan and the Choice Plan for the fiscal year ending June 30, 2005. For the fiscal year, the total fund enjoyed a 10.78% return which exceeded the policy target of 8.66% and ranked in the 9th percentile in the Callan's Public Funds Database. Long-term interest rates ended the first half of the year lower than a year ago, a time period in which the Fed raised interest rates nine times.

Reporting on the performance of the Choice plan, Mr. O'Leary said all funds have performed well. No matter what equity option a member chose, they performed in the top 50% of the market.

Monthly Portfolio Update: Mr. Maynard began his presentation by displaying details from his 1998 and 2000 reports and discussing the markets during that time period. He expects to talk more about the capital markets at the September meeting and share his thoughts on how we should be positioned for the coming years. We are waiting, broadly diversified, for capital markets to break. He expects to wait – perhaps for a couple of years in our current mode, increasing private equity and private real estate investments by re-investing returns from those areas. This will position PERSI to be ready to move when opportunities arise. Comments from his report dated 8/21/2005 include:

The new fiscal year is starting out quite strong, with US equities leading the way, and the fund as a whole is up 2.4% for the first month and a half of the new year. A continuing robust economy alongside still better-than-expected corporate profits have combined to continue the market rise. Bonds have suffered as interest rates have risen a bit across the board in line with the Federal Reserve's indications of continued interest rate increases.

Bernstein Emerging is the leading performer in absolute returns, followed by the Genesis emerging markets portfolio. TCW Domestic is the best performer against benchmark, followed by Cap Guardian and Bernstein Global. The State Street TIPS account has the worst absolute performance, and the bond accounts are generally negative for the fiscal year so far. Mountain Pacific is starting out the fiscal year with the worst relative performance of the accounts. Tukman continues its struggles.

Of PERSI's major strategic leanings, TIPS are having the greatest negative impact relative to the fund's strategic benchmark (55% US equities, 15% international, and 30%

fixed), while global equity managers are helping the most. Overall, the fund is ahead of the strategic benchmark for the fiscal year by .36%.

Investment Manager Comments: Chairman Olson invited managers who were present to comment on the markets and the economy. Acting MIO Richelle Sugiyama from the Endowment Fund Investment Board said she expects to complete her work at EFIB and return to PERSI by October 1, 2005.

Brian McGrath says the U.S. economy is growing well; high oil prices will hit harder in Idaho because we are geographically isolated. He does not see a need for short term interest rates to rise, viewing inflation pressures as fairly benign in the next couple of years. Because the economy is highly leveraged in real estate and short term loans, it is more sensitive to federal funds rate increases than previously. Dennis Fitzpatrick added that we are a global economy now with interest rates being set on the global stage. In the future the U.S. Federal Reserve Board may not be able to manage our economy by setting U.S. Treasury rates; they may be set in Shanghai. Doug Bates expressed inflationary concern regarding short term adjustable mortgages, stating that when everyone makes the conversion to the 30-year rate, it could snap the curve and force rates up. His business partner, Dave Boren, added that the Feds have tightened more than needed, saying all the interest rate adjustments have had very little effect on what they are trying to control. Rod MacKinnon feels stocks are fairly valued and expects them to rise by the end of the year. Bill Palumbo said we should be reaching the end of the tightening cycle compared historically. Interest rates have an insidious effect on the economy; the 70 cent per gallon increase in gas prices from a year ago are starting to "bite" and may begin to affect the economy.

DC PLAN

Choice Plan Statistics: After a short break, DC Plan Manager Diane Berg provided information regarding the PERSI Choice Plan 401(k) for the fiscal year end 6/30/05. Assets have increased 27.6% to a total of \$177,684,613. Of those funds, 77.64% are invested in the PERSI Total Return Fund which mirrors the PERSI Base Plan investments.

Members continued to roll funds into the Choice Plan adding \$4,725,682 during the fiscal year. Active employees added \$21,674,478 through payroll deductions. The number of members who are contributing increased by 2,046 this year, bringing active contributors to 8,218. This is 12.64% of those eligible to contribute, up from 10.4% the previous year. There are 47,616 participants in the Choice Plan. Retirees and other members terminating service with their employers are benefiting through

distributions of their funds and earnings. 455 members have loans from their accounts for various reasons. Fees continue to be low for Choice Plan participants and oversight of the investment managers continues by PERSI staff. There is no fee for investing in the PERSI Total Return Fund and the highest fee charged by individual managers is 1.14% by Brandes International Equity. The average investment expense for Choice Plan members is .10%. Trustee Ahrens said the program is valuable as a recruitment tool. Ms. Berg said a new brochure is being designed to assist in providing information to our new hire members about the program.

EXECUTIVE DIRECTOR

Status Update: Mr. Winkle reviewed his memorandum dated August 17, 2005 which had previously been provided to the Trustees. The reorganization into a contact center is progressing; employees have begun intensive training. A September 19 "go live" date is planned.

Mr. Winkle has been participating with the Department of Administration review of Long Term Care RFP candidates. The state will contract with a carrier for the employee-paid optional insurance. In the short term, PERSI's involvement will be limited to allowing the premium to be deducted from a state retiree's benefit with the possible expansion to all members over the long term.

The fourth floor of the PERSI building has been leased for another five-year term. Trustee Sullivan asked what the square foot leasing rate is; Financial Officer Monroe will provide that information to Mr. Sullivan.

Discussing an e-mail sent to the Board by Police Chief McNary of Hailey, the Trustees discussed whether PERSI uses actuarial assumptions that are too conservative. Mr. Winkle said other systems who use a "smoothing assets over time" process are finding themselves highly underfunded. By recognizing liabilities on a current basis, PERSI remains able to react quickly to markets with better tracking. Trustee Hayes said Chief McNary's correspondence should not be a reflection on other police chiefs, most of whom are very supportive of PERSI. He added that the conservativeness of the Board ensures that promised benefits will be paid.

MEMBERSHIP

Disability Program Review: Membership Manager Judy Aitken and her assistant, Judy Shock, presented a review of the PERSI disability program. The determination process is handled by a third-party administrator. 160 members applied for disability in fiscal year 2005; 29 of these had less than 10 years of PERSI service. 116 applicants were determined to be totally and permanently disabled and were awarded PERSI disability benefits. While the plan is for catastrophic disabilities, Ms. Aitken said the benefit is very good, providing the benefit the person would have received if they had been able to work until age 65. There are about 525 individuals currently receiving PERSI disability benefits. Ms. Aitken told the Board that Ms. Shock has been assisting at EFIB during the past four months due to their staffing shortage.

Mr. Maynard said EFIB lost three out of their four employees and Ms. Shock's assistance has been appreciated. There is a strong possibility that she will transfer permanently to that agency when the MIO is employed in October as it would be a career advancement.

LEGAL

Legislative Proposals: Deputy Attorney General Brad Goodsell reviewed his August 18, 2005, Memorandum to the Trustees. The six proposed bills are: 1) Avoid Mandatory Rollovers; 2) Death Benefit for Suspended Benefits Clarification; 3) Unused Sick Leave "Rate of Pay" and Eligible Costs; 4) Eliminate Voluntary Contributions; 5) Disability Application Deadline; 6) Board Powers – Indemnification. After discussion, by motion duly made by Trustee Sullivan and seconded by Trustee Ahrens, the Board unanimously approved the six legislative proposals and directed staff to submit them to DFM.

FISCAL

Fiscal Update/ Administrative, Portfolio Reports: Financial Officer James Monroe reviewed his August 17, 2005 memorandum to the Board. The annual audit is underway. Mark Stevens, Salt Lake City, is the Lead Client Service Director. He has many years of audit experience with the Utah State Retirement Systems.

By motion duly made by Trustee Hayes and seconded by Trustee Sullivan, the Board unanimously approved the staff recommendations for the FY2007 PERSI budget request as submitted, allowing for minor adjustments prescribed by or resulting from the budget development process.

Mr. Monroe reviewed the Administrative Budget Report. In response to a question from Trustee Hayes, he said that if positions are vacant and remain unfilled, the appropriated funds are not reverted to the State. PERSI only draws funds from the trust as needed to meet current obligations. Discussing the Portfolio Budget Report, he pointed out that investment management expense makes up the largest portion and, therefore, has the biggest impact on the total budget. For budgeting purposes, it is based on a 7.75% assumed rate of asset growth. Significant variances from that rate will have an impact on budget-to-actual comparisons.

Quarterly Financial Statements: Portfolio Accountant Cecile McMonigle reviewed details of the financial statements for the quarter ended June 30, 2005. Private equity manager fees are increasing the investment expense numbers. Mr. Monroe will provide an analysis of the investment expense numbers to Chairman Olson. He will also make an appointment for the Chair to meet with the Lead Auditor. Trustee Hayes asked about the sick leave report that showed administrative expenses. That report is different from this quarterly financial statement report and will be presented again at a future meeting.

FUTURE MEETINGS:

Trustee Sullivan will be out of the country and unable to attend the September and October meetings. Trustee Hayes asked that the December meeting be changed from Monday, December 5, as it would require weekend travel. The Trustees agreed to change that meeting to Tuesday, December 7, 2005, subject to confirmation from each Trustee.

Trustee Ahrens will be unable to attend the December meeting.

Friday, September 23, 2005, 8:30 a.m., Boise - PERSI office

Tuesday, October 25, 2005, 8:30 a.m., Boise - PERSI office

NO MEETING IS PLANNED FOR NOVEMBER 2005.

Wednesday, December 7, 2005, 8:30 a.m. Boise – PERSI office

Adjournment: At 11:10 a.m., there being no further business to come before the Board, the meeting was adjourned.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director